



Selling to **CO-OP GROCERY STORES** in South Carolina





SOUTH CAROLINA
FARM *to* INSTITUTION

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COOPERATIVE EXTENSION

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Introduction

Defining cooperative remains a challenging issue, since no consensus exists. A common definition used is: “A cooperative is a business owned and democratically controlled by the people who use its services and whose benefits are derived and distributed equitably on the basis of use.” (USDA, 2012). Based on the territory served, the objectives and the governance system cooperatives are classified in a number of different types (USDA, 2012). Consumer and food cooperatives are among the most common ones. Consumer food cooperatives (co-ops) have long championed locally-produced food. Co-op grocery stores are often among the more accessible wholesale markets for farm and food producers and are often very willing to promote food from smaller farms and local businesses. Co-ops have also long been sources for food produced using organic practices, and co-op consumers tend to be highly engaged with the production practices and philosophies of the farms and companies producing food.

Philosophy sometimes differentiates food co-ops from other independent grocers and small grocery chains. Interest and participation in consumer food co-ops historically “tends to increase during periods of social, political and economic turmoil.”¹ There was an explosion of interest in food co-ops and buying clubs in the

late 1960s and 1970s. Food co-ops then experienced consolidation, and some decline in numbers, through the 1990s. More recently, increased interest in local food has been one factor fueling benefits for co-op food stores (Zitcer, 2015). Additionally, a new cooperative structure, the New Generation Cooperatives (NGC), has emerged over the last two decades. The focus on the value-added processing and marketing of commodities, and the ability to trade equity shares are among the main differences of NGC with traditional cooperation’s (Coltrain et al., 2000).

According to the University of Wisconsin Center for Cooperatives, consumer food co-ops benefited in the 2000s from “intense consumer interest in alternatives to a market system that might not suit their needs.” This growth continues in the 2010 decade. To illustrate, a recent USDA report ([usda.gov/media/press-releases/2016/10/04/food-and-agriculture-co-op-income-again-sets-record-2015-usda-data](https://www.usda.gov/media/press-releases/2016/10/04/food-and-agriculture-co-op-income-again-sets-record-2015-usda-data)), indicated that the food and agriculture cooperatives in USA achieved a record high income during 2015. There are also several examples of co-op grocery stores in locations where local stakeholders saw this as the only viable means to securing even one food retail establishment. These establishments are often considered as rural development strategies.

¹ “Grocery Cooperatives.” University of Wisconsin Center for Cooperatives. reic.uwcc.wisc.edu/groceries



There are between 300 and 350 food co-ops in operation around the country including one in South Carolina:

Upstate Food Co-op (Six Mile)

A list of cooperative grocers in other states may be found at the Cooperative Grocer Network, cooperativegrocer.coop.

Though co-ops have long been friendly to sourcing local products, food producers selling to co-ops must still maintain high standards of professionalism, product

quality and food safety. This fact sheet provides an overview of producer concerns for selling to co-ops in the following areas:

- Relationships and Communication
- Product Presentation and Delivery
- Pricing
- Product Branding
- Packaging and Labeling
- Insurance and Risk Management
- Certification Requirements

A list of additional resources is included at the end of this publication.

Relationships & Communication

Food co-ops are local businesses, often operating at a single location and it is not unlikely that some of them include grocery and non-grocery merchandise (Katchova and Woods, 2013). The food co-op with the greatest number of stores in 2013 was PCC Natural Markets, operating nine stores in the Seattle, Wash., area. As co-ops are customer-owned and managed by a local board of directors, they tend to be very interested in building relationships with local growers. Good communication between producer and co-op will strengthen that tie; many co-ops have even initiated relationships with local producers.

The size of the co-op generally determines with whom producers will directly interact. A producer's initial contact with a co-op will likely be made with the general manager or central office. The co-op's *general manager* is in charge of all operations. In single-store or smaller co-ops, the general manager may have more in-store responsibilities and may be an initial point of contact with local food producers. A *department manager*, like produce or meat, will usually work directly with the producer to coordinate product purchase and delivery. According to Katchova and Woods (2013), the average co-op works with almost 70 producers. Producers might also work with the co-op's *marketing* or *communications* departments, especially when conducting in-store promotions. Finally, the business office, or *accounts payable*, will be the point of contact for invoicing and payment.

Because co-ops emphasize community-building, managers appreciate producer communication and involvement with all members of the staff. The Sacramento, Calif., Natural Foods Co-op hosts a monthly "Growers Lunch" for its staff, where the store's workers can get to know the producers supplying the store with food (Maviglion, 2011). Events like this also help the workers to answer customer questions – workers can talk about having met the farmer, or having been to the farm, when asked questions about the products.

Co-op managers also appreciate producer involvement during in-store sampling and promotional activities. Producers who make themselves or a member of their business available at such events can help build a relationship of mutual benefit and trust and enhance the "community" aspect highly valued by consumer food co-ops.





Product Delivery

More than half of 60 food co-op general managers surveyed across the U.S. in 2011 said working with local producers created an advantage for product delivery and logistics (Katchova and Woods, 2011). While local producers may have less distance to travel to sell to a co-op, care should be taken to arrive when promised with product that is of suitable quality. Produce growers should especially be sure to follow the co-op's pack, size, grade and post-harvest practices.² Some co-ops operate as certified organic retailers; if that is the case, producers should follow the required standards.

For fresh produce, proper grading, cleaning and packing will be required for delivery to the co-op. Although the co-op may specialize in local and niche foods, the store still receives products in standard

packaging and containers. As with deliveries made to all local grocery stores, producers should always deliver product at the time and location agreed upon. "Sometimes it's hard to get (local growers) to follow the rules in terms of shipping times or delivery times," stated a co-op general manager in comments associated with the national survey.³ Furthermore, in order to maintain supply and profits during the periods that local food is not available, it is not uncommon for co-ops to offer food products from national retailers (rd.usda.gov/files/RD-RuralCoopMagSepOct2016.pdf)

Producers should clarify product delivery and presentation guidelines with the co-op. Immediate notification of any delivery delays (weather, accidents, etc.) will go a long way toward creating a business relationship of mutual trust.

² "Tips for Selling to: Grocery Stores." attra.ncat.org/marketing.html#other

³ Matt Ernst. Background interviews for national survey of consumer food cooperative general managers. University of Kentucky, 2010 (Unpublished).

Pricing

Co-ops set retail prices for their members through a process called markup. Interviews with co-op general managers across the country indicate that it is not uncommon for co-ops to pay higher prices for local products than in the current wholesale market, or accept lower margins. The difference between the price paid by the store and the retail price is referred to as “margin,” and many co-ops have shown a willingness to decrease the margin on locally-grown products (Katchova and Woods, 2013).

For example, a co-op may purchase wholesale tomatoes for \$1.50 per pound. In order to realize a 30 percent margin, those tomatoes are marked up to a retail price of \$1.95. If the co-op pays \$1.75 per pound for local tomatoes, then sells them for \$1.95, it only realizes about an 11 percent margin.

When discussing pricing with a co-op, the producer should understand both

his or her cost of production and the existing wholesale price structure. This is an advantage to both the co-op and the producer, as illustrated in the following account from a co-op manager in the Midwest who talked about negotiating a price for locally-grown pork.⁴

“Our buyer said, ‘I gotta tell you, the price (the producer was asking) is too low. For the organic market, you’re selling something to me that is lower than I’m buying non-organic for. Make sure that you’ve got your pricing right, because I don’t want to see a price increase a couple months down the road.’”

Co-op produce managers often cite superior quality of local products as helping justify higher producer prices paid. Higher quality results in less product loss (shrink), generally helping improve a retailer’s profitability.



⁴ Ernst, 2010.



Product Branding

Farms growing food for the local market can realize the value of branding as their products enter multiple local channels, such as restaurants, farmers markets and local groceries. A product brand “is the combination of name, words, symbols or design that identifies the product and its company and differentiates it from competition.” (Giddens, 2015)

Co-ops often prominently highlight local producers through in-store merchandising. Signage, often created by a co-op’s marketing department, may feature photos of the producer and farm, along with business logos. As in all grocery stores, care should be taken to keep the farm’s name,

logos and products consistent wherever those products are available.

Co-ops may also provide producers opportunities to “build their brand” through in-store product sampling, promotional events and community festivals. A farm’s personal participation in such events can contribute to brand visibility – and also help cement a good relationship with the co-op.

More information about successfully developing farm product brands can be accessed in the publication from Iowa State University Extension, “Building Your Brand,” at extension.iastate.edu/agdm/wholefarm/html/c5-50.html



Packaging & Labeling

In addition to negotiating prices and/or group individual quantities into larger volumes, a number of food co-ops add value to their products through the use of labels (rd.usda.gov/files/cir55.pdf). Like other grocery stores, co-ops will require properly packed produce and fresh food. Grocers are accustomed to receiving fresh products in standard packaging, like the reusable plastic containers pictured here, that fit into a store's handling practices. Containers should include the farm name, contact information and a product description: quantity, if being sold by the each; or weight, if being sold by the ounce or pound. Packaging preferences for dairy and meat products could vary by store.

Co-ops also may encourage packaging that is recyclable or sourced from sustainable product streams. In some cases, this might

be a part of a larger overall “greening” effort for the business. At the same time, food packaging and handling procedures must always meet regulations and guidelines for food safety. Producers may have the chance to work through packaging solutions with the co-op to arrive at solutions that satisfy all such concerns.

Product lookup (PLU) numbers for fresh produce items and UPC codes for packaged goods are standard in all grocery stores. Discuss with the food co-op how your products may be labeled. Many food co-ops specialize in offering a diverse selection of health foods; pay careful attention when making any such health claims on product labels. Such claims are regulated by the FDA; determine more about federal food labeling guidelines at www.fda.gov.

Insurance & Risk Management

Most grocery stores require farms to carry product liability insurance (PLI), usually at a level of at least \$1 million. The producer should check with the co-op to determine if product liability insurance is required; if so, the co-op will usually ask for proof of insurance. It is advisable to carry the insurance coverage even if a particular outlet does not require PLI. Stores may also have different insurance requirements for different product types.

Food safety is a continuing concern for food retailers. Co-ops may rely on third-party certifications (such as USDA Certified Organic) to help vet product quality. A co-op general manager in a 2010 survey summed up how this works. “We love it if

it’s certified organic,” she said. “That gives us relative assurance that they (producers) know how to handle it, they have to follow certain stipulations in handling to make sure that it’s safe. And there’s a big level of trust.”⁵

Processed or manufactured foods, as well as meat and dairy, may be subject to different levels of liability insurance and food safety certification. Third-party audits are standard for many food retailers to affirm that food is being produced safely. Moreover, a number of food cooperatives may offer food safety assistance to their members (rd.usda.gov/files/RD-RuralCoopMagSepOct2016.pdf; Katchova and Woods, 2013).



⁵ Ernst, 2010. (University of Kentucky)

Certification Requirements

In addition to food safety and production practice requirements, co-ops may ask producers for other certifications. The most common of these, for most co-ops, is USDA Certified Organic. Other requested certifications could include those related to a farm's labor practices, animal husbandry techniques and environmental stewardship. Some co-ops require products to be sourced from a certain geographic area to gain certain in-store labeling.

In South Carolina, meat and poultry products (including value-added products containing more than 3% raw or 2% cooked beef, pork, chicken or lamb) are regulated by the South Carolina Meat and Poultry Inspection Department.

More information about these regulations may be found at clemson.edu/public/lph/scmpid/.

Non-cheese dairy items, soft drinks and water products (bottled water, ice, etc.) are regulated by SC DHEC Food Protection Dairy Division. Additional information about these regulations may be found at scdhec.gov/food-safety/food-safety-dairy-safety-south-carolina.

Shellfish products are regulated by the SC DHEC Shellfish Division. Go to scdhec.gov/food-safety/shellfish-monitoring-program-overview for more information.

Products containing 7% or more alcohol are regulated by the Alcohol, Tobacco, Firearms Tax and Trade Bureau. For more

information about these regulations, go to ttb.gov.

All other food items sold wholesale, including value-added food products, are regulated under the South Carolina Department of Agriculture. For more information about these regulations, go to agriculture.sc.gov/divisions/consumer-protection/food-safety-compliance/.

Examples of value-added foods being produced under the jurisdiction of the SC Department of Agriculture include BBQ sauce, hot sauce, marinara sauce, pickles/pickled products, jams, jellies, and fruit preserves. These products also require testing by a process authority before they can be produced and sold. In South Carolina, process authorities are at Clemson University, where product testing is coordinated by Clemson University Extension Service's Food2Market program (clemson.edu/extension/food2market).

Products classified as acidified (i.e. pickles) and low acid (i.e. green beans) require the processor to have a Better Process Control School certificate and registration of their facility and process with the Food and Drug Administration. This is a requirement of the FDA and must be done before registering the product with SCDA.

Co-ops may also look favorably on kosher, gluten-free and halal certifications. Some co-ops or their affiliated restaurants may be certified organic facilities.



Conclusion

Consumer food co-ops can be an accessible market for local producers ramping up to production of wholesale quantities. In-store promotions and, frequently, favorable pricing for local products can potentially increase a farm's quantity of goods sold and/or profit levels. Producers should be especially proactive to establish good communication channels with the appropriate staff at the co-op, and producers willing to participate in store promotions featuring their farm's product can further strengthen the farm-grocery business relationship.

Food co-ops require farms to follow similar guidelines as other groceries in the areas of product presentation, delivery, packaging and labeling. Producers will likely be required to have product liability insurance, though that may vary according to individual co-op policies for local purchases and product type. Co-ops have also been more likely to feature products with certain certifications related to production region, labor, sustainability, organic and other production practices.

Selected Resources

“Selling to Restaurants and Food Co-ops.” Washington State Department of Agriculture. Handbook for Small and Direct Marketing Farms. 2014. Available at agr.wa.gov.

“Grocery Cooperatives.” University of Wisconsin Center for Cooperatives. reic.uwcc.wisc.edu/groceries/

“Marketing Fresh Produce to Food Retailers.” University of Kentucky Crop Diversification Center. uky.edu/Ag/CDBREC/marketing/grocers.pdf

“Rural Cooperatives: Delivering Good Food From Awesome Farmers.” USDA office of the secretary rd.usda.gov/files/RD-RuralCoopMagSepOct2016.pdf

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